

Budget Brief – Capital Improvements

NUMBER CFAS-06-22

SUMMARY

Capital Improvements—formerly known as “alteration, repair and improvements” or AR&I—are improvement projects costing less than \$1.5 million on the state’s existing fixed capital assets. Capital improvement funds may not be used for program equipment or routine maintenance. Statute requires capital improvements to be funded at a level equal to 1.1 percent of the replacement value of existing state buildings prior to any new capital development project being approved. During budget deficits the statute allows funding at 0.9 percent.

Utah had never actually funded capital improvements at the 1.1 percent level until the 2005 General Session. In that session it appropriated \$56,161,600 for FY 2006, which exceeded the minimum 1.1 percent requirement by \$2.5 million.

ISSUES AND RECOMMENDATIONS

FY07 Requirement

The statutorily required amount of funding for FY 2007 is \$62,921,300, which is \$6,759,700 more than the FY 2006 appropriation. Had the 2005 Legislature not appropriated an excess of \$2.5 million in the base budget, the required FY 2007 amount would have been \$9.3 million.

The Executive Appropriations Committee has already recognized the increase of \$6,759,700 as a mandate and authorized it to be placed in the FY 2007 Base Appropriations Bill. The Analyst recommends the funding increase come from Income Tax revenues. Doing so would lift the percentage of this budget funded by Income Tax from 37 percent to 44 percent. As shown in the chart on the following page, 56 percent of the funds are spent on higher education improvements. However, the Analyst does not recommend funding this budget with more than 50 percent income tax.

Utah’s Approach is Nationally Recognized

The Analyst has been contacted by Governing Magazine and other states desiring more information about our capital improvement process. Further recognition came at the annual conference of the National Association of State Facilities Administrators (NASFA) in 2005.

Usually others are impressed that the Legislature is willing to cede control of capital funds to the Building Board and DFCM project managers. This approach shows Utah legislators take a system-wide approach to taking care of our existing buildings.

Figure 1: Capital Budget - Capital Improvements - Budget History

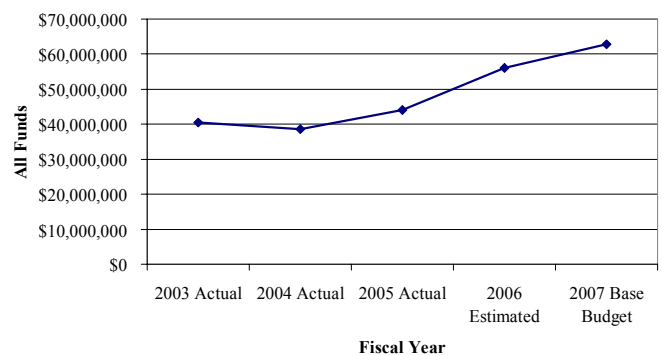


Figure 2: Capital Budget - Capital Improvements - FTE History

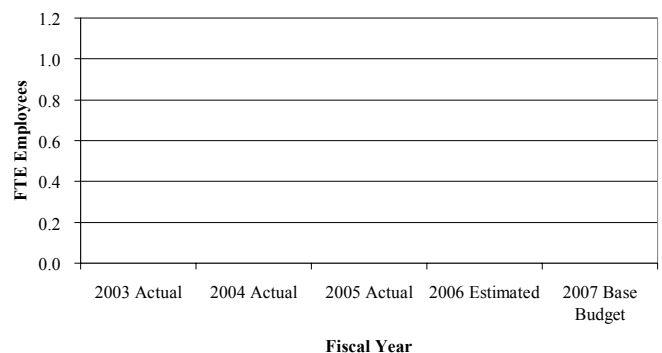
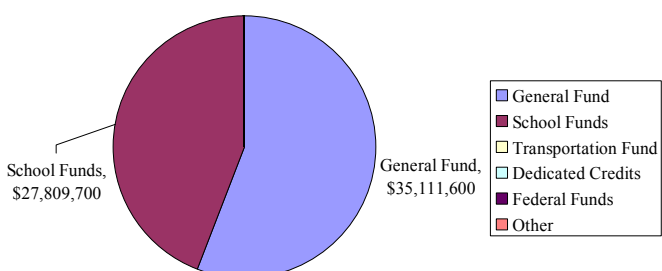
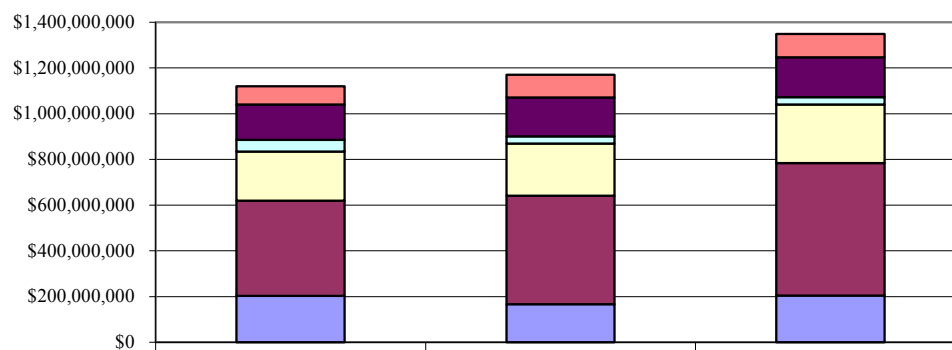


Figure 3: Capital Budget - Capital Improvements - FY 2007 Funding Mix



ACCOUNTABILITY DETAIL***Funding by Major Area*****Summary of Capital Improvement Funding**

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Higher Ed	\$17,499,500	\$25,703,600	\$18,596,600	\$22,040,300	\$23,690,100	\$30,287,900
Higher Ed %	48%	58%	52%	52%	54%	54%
UCAT	\$1,942,700	\$1,812,800	\$1,394,500	\$1,712,700	\$883,700	\$1,254,500
UCAT %	5%	4%	4%	4%	2%	2%
Public Ed	\$52,000	\$95,000	\$220,000	\$142,200	\$99,300	\$87,700
Public Ed %	0.1%	0.2%	1%	0.3%	0.2%	0.2%
General Governmt	\$8,941,900	\$8,592,800	\$9,687,200	\$9,026,500	\$10,989,300	\$14,131,600
Gen Govt %	25%	19%	27%	21%	25%	25%
Law Enforcement	\$3,448,000	\$4,315,400	\$3,118,000	\$6,002,900	\$4,950,200	\$5,951,400
Law Enf %	9%	10%	9%	14%	11%	11%
Statewide Issues	\$4,500,800	\$4,140,000	\$3,090,400	\$3,790,100	\$3,444,300	\$4,448,500
Stwd Iss %	12%	9%	9%	9%	8%	8%
Total	\$36,384,900	\$44,659,600	\$36,106,700	\$42,714,700	\$44,056,900	\$56,161,600
Other	\$1,485,815		\$4,400,000			

Progress on Maintenance Backlog**Facility Assessment: Maintenance Backlog (\$Billions)**

Infrastructure Ten Yr Needs	\$80,435,000	\$99,194,000	\$101,574,000
Infrastructure Five Yr Needs	\$154,395,000	\$169,960,000	\$174,512,000
Infrastructure Immed Needs	\$51,315,000	\$31,932,000	\$32,583,000
Buildings Ten Year Needs	\$214,679,000	\$227,514,000	\$255,285,000
Buildings Five Year Needs	\$416,486,000	\$474,383,000	\$579,654,000
Buildings Immediate Needs	\$202,971,000	\$167,164,000	\$204,453,000

The reason for the large increase in FY 2006 is inflation associated with all aspects of construction, and because evaluators have recently completed reassessments on several buildings. DFCM's Facility Condition Assessment Program has identified \$237 million in "immediate" repair needs to buildings and infrastructure, and more than \$1.3 billion in needs over the next ten years. Capitol improvement funds cannot address all issues, since many problems cost more than \$1.5 million to correct. In those cases, funds must be used from the Capital Development line item. The Legislature has focused on spending Capital Development funds on building replacements rather than expansions.

BUDGET DETAIL

Back in FY 2004 the Legislature increased its use of income tax revenues from \$4.9 million to \$17 million in order to reflect that many capital improvement dollars are spent on educational buildings.

Budget Recommendation

The Analyst recommends a total FY 2007 Capital Improvement budget of \$62,921,300. This includes the FY 2006 base budget of \$56,161,300 plus an additional \$6,759,700 from income tax revenues. The additional funds are already allocated in the FY 2007 Base Budget Bill and are therefore also included in the table on page 4.

LEGISLATIVE ACTION

This section is a summary of what actions might be taken if the Legislature wishes to adopt the recommendations of this brief. The Analyst recommends the Legislature consider adopting:

1. A total base appropriation of \$62,921,300 for the Capital Improvements Line Item.

BUDGET DETAIL TABLE

Capital Budget - Capital Improvements						
	FY 2005	FY 2006		FY 2006		FY 2007*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Base Budget
General Fund	26,976,900	35,111,600	0	35,111,600	0	35,111,600
Income Tax	17,000,000	21,050,000	0	21,050,000	6,759,700	27,809,700
Total	\$43,976,900	\$56,161,600	\$0	\$56,161,600	\$6,759,700	\$62,921,300
Programs						
Capital Improvements	43,976,900	56,161,600	0	56,161,600	6,759,700	62,921,300
Total	\$43,976,900	\$56,161,600	\$0	\$56,161,600	\$6,759,700	\$62,921,300
Categories of Expenditure						
Other Charges/Pass Thru	43,976,900	56,161,600	0	56,161,600	6,759,700	62,921,300
Total	\$43,976,900	\$56,161,600	\$0	\$56,161,600	\$6,759,700	\$62,921,300